File

UNICAN

Annual Report 1975

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President's Message

December 15, 1975

TO THE SHAREHOLDERS:

Consolidated results for the year ended June 30, 1975 show a loss of $2,554,767 on sales of $25,242,107; this compares with a profit of $794,319 on sales of $29,361,721 for previous year. The Unican Group of companies absorbed in the period of 12 months ending June 30, 1975 a combination of events which normally occur over a period of 3 to 4 years. Although difficult to absorb in so short a period of time, we were able to cope with these major changes. The highlights of these changes, by division, were as follows:

1) ILCO-Fitchburg — A 4½ month strike called by Local 290 of the IUE combined with summer vacations and the slow restart of the plant resulted in virtually 6 months of no production at Ilco. This was followed by a management decision to phase out the architectural hardware and lock division known in the industry as Lockwood. This move enabled us to eliminate large slow moving inventories, low profit margin sales and large quantities of obsolete and inefficient production facilities most of which have been sold subsequent to the year end. The result was, on consolidation, a $1,900,000 net loss at Ilco-Fitchburg.

2) July 1, 1974, our wholly owned subsidiary, Unican Security Systems Corp. commenced operations at Rocky Mount, North Carolina, in a totally new 156,000 square foot plant and three hundred new employees were trained. We estimate the cost of training and other associated expenses to be in excess of $400,000 in the 1974-5 year, all of which was charged to current income. As a result of absorbing these one time expenses, the net loss for Unican Corp. was $232,000; however, as a result of depreciation and other non cash expenditures, we have a positive cash flow of $113,503.

3) Our Canadian manufacturing operations were affected by the sudden steep downturn of the economy during the late fall of 1974 which continued through the spring of 1975. We were forced to quickly cut back our manufacturing output due to the sudden curtailment of demand for exports to the U.S.A. and many of our Original Equipment Market customers in Canada. In addition, Canadian operations were forced to absorb substantial increased costs of labour and supplies most of which could not be passed on to our customers as a result of the fierce competition in a depressed market. This resulted in a loss of $170,000; however, as a result of depreciation and other non cash expenditures, we had a positive cash flow of $450,000.

4) Activity in Unican Electrochemical increased substantially due to increased marketing and preproduction requirements. We have succeeded in completing and testing preproduction models of several new unique products; these included in particular a zinc air battery designed specifically for use in hearing aids and a battery fuel gauge. The market for both of these products is substantial and we are presently exploring a line of action which would enable Unican Electrochemical to manufacture and market these new products. The cost of these activities combined with our share of research and development, net of government grants, amounted to $253,000.

February 1, 1975 was the high point of our bank debt at 6.7 million dollars. From then to June 30, short term borrowings were reduced $883,000 with a further $879,000 reduction of short term borrowings by October 30, 1975. Reduction of long term debt for the year ended June 30, 1975 was $240,000 net. With the start of the new fiscal period July 1, 1975, we immediately saw the results of the previous year product line reduction, plant consolidations and increased efficiency.

Interest cost July 1 to October 30, 1975 was $328,481 compared with $480,074 for the same period in 1974. General administration for July 1 to October 30, 1975 was $646,445, reduced from $834,878 for the same period in 1974. In addition manufacturing overhead was reduced from $2,589,156 for July-October 1974 to $2,101,977 for July-October 1975. These subsequent reductions of general overhead and expenses coupled with our program of inventory control and disposal of obsolete facilities, machinery and other assets are enabling the company to compete more effectively in the market place and to rapidly regain a firm position of profitability.

In the years 73-74 and 74-75, we employed in excess of 1600 people, shipments averaged $17,000 per employee; presently we employ 1000 persons with shipments averaging $25,000 per employee. This improvement came about through price increases and greater efficiency at all our manufacturing facilities. Our objective is to continue an organized plan of debt reduction, inventory controls, and intensive marketing which will give us a greater share of the consumer hardware market. Our goal is to give the company greater margins of profit in relation to sales than we have enjoyed in the past.

At this time, on behalf of all of us in management and the board of directors, I wish to thank our many bankers, suppliers and employees without whom it would not have been possible to surmount the difficulties of the past year and set our course for a profitable future.

Respectfully submitted
UNICAN SECURITY SYSTEMS LTD.

Aaron M. Fish,
President

Consolidated Statement of Income

Year ended June 30, 1975
with comparative figures for 1974

	1975	1974
Net sales	$25,242,107	$29,361,721
(Loss) income before the undernoted items	(318,920)	3,154,747
Depreciation of property and equipment	1,016,356	814,066
Amortization of other assets	196,474	66,388
Interest on long-term debt	451,460	320,995
Other interest	816,544	570,929
Share of loss in corporate joint ventures	39,787	31,843
Research and development, net of government grants of $293,553 (1974 — $216,525)	228,199	203,062
	2,748,820	2,007,283
(Loss) income before income taxes, minority interest and extraordinary items	(3,067,740)	1,147,464
Income taxes (note 7):		
Current	19,952	35,298
Deferred	(140,000)	513,740
	(120,048)	549,038
(Loss) income before minority interest and extraordinary items	(2,947,692)	598,426
Minority shareholders' interest in loss (income)	392,925	(23,265)
(Loss) income before extraordinary items	(2,554,767)	575,161
Extraordinary items	—	219,158
Net (loss) income	$ (2,554,767)	794,319
(Loss) income per share (note 8)		

See accompanying notes to consolidated financial statements.

UNICAN SECURITY SYSTEMS LTD.
and its subsidiaries

Consolidated Balance Sheet

June 30, 1975
with comparative figures for 1974

Assets

	1975	1974
Current assets:		
Cash	$ 49,139	$ 38,984
Trade accounts receivable, net of allowance for doubtful accounts	3,620,668	4,535,519
Government grants receivable	120,109	145,470
Sundry receivables	118,503	205,895
Notes receivable	25,025	227,300
Accounts receivable from corporate joint ventures	121,663	122,486
Inventories (note 1(c))	7,843,204	9,325,012
Prepaid expenses	171,736	204,114
Total current assets	12,070,047	14,804,780
Advances to and shares in corporate joint ventures:		
Advances	104,022	—
Shares, at equity	23,356	63,143
	127,378	63,143
Property and equipment, at cost less depreciation (note 1(d))	7,557,317	7,718,934
Other assets (note 1(e)):		
Patents and franchise rights, at cost less accumulated amortization	151,873	140,676
Unallocated cost of business over book value of net assets acquired, less amounts written off	141,000	189,591
Preproduction costs at new plant, less amount written off	451,287	564,108
Other deferred expenses and deposits	112,912	151,655
Total other assets	857,072	1,046,030
	$20,611,814	$23,632,887

See accompanying notes to consolidated financial statements.

On behalf of the Board:

.... Director

.... Director

Liabilities And Shareholders' Equity

	1975	1974
Current liabilities:		
Bank indebtedness, secured (notes 2(f), 3)	$ 5,919,867	$ 6,301,852
Accounts payable and accrued expenses	5,251,892	4,543,641
Current instalments of long-term debt (note 4)	546,373	553,789
Total current liabilities	11,718,132	11,399,282
Long-term debt, excluding current instalments (note 4)	4,275,711	4,516,251
Deferred income taxes	531,940	671,940
Minority shareholders' interest in equity of subsidiary companies	77,602	470,427
Shareholders' equity:		
Capital stock:		
5% non-cumulative, redeemable preferred shares at a par value of $1 per share.		
Authorized 45,500 shares; issued and redeemed 12,600 shares		
Common shares without par value.		
Authorized 2,000,000 shares; issued 1,816,480 shares (1974 — 1,816,480 shares)	5,484,831	5,484,831
Contributed surplus	72,526	60,793
(Deficit) retained earnings	(1,349,654)	1,205,113
	4,207,703	6,750,737
Less cost of 92,250 common shares (1974 — 75,750) held by a foreign subsidiary	199,274	175,750
Total shareholders' equity	4,008,429	6,574,987
Commitments and litigation (notes 5, 6)		
	$20,611,814	$23,632,887

Consolidated Statement of Deficit

Year ended June 30, 1975
with comparative figures for 1974

	1975	1974
Retained earnings at beginning of year	$ 1,205,113	$ 410,794
Net (loss) income for the year	(2,554,767)	794,319
(Deficit) retained earnings at end of year	$ (1,349,654)	$ 1,205,113

Consolidated Statement of Contributed Surplus

Year ended June 30, 1975
with comparative figures for 1974

	1975	1974
Contributed surplus at beginning of year	$ 60,793	$ 35,200
Excess of par value of preferred shares of a subsidiary company over the purchase price paid therefore	—	13,860
Portion of loan from government development agency forgiven during the year	11,733	11,733
Contributed surplus at end of year	$ 72,526	$ 60,793

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended June 30, 1975
with comparative figures for 1974

	1975	1974
Funds provided:		
Proceeds from sales of property and equipment	$ 661,231	$ 358,221
Proceeds of long-term borrowing	658,342	2,403,803
Portion of long-term debt forgiven	11,733	11,733
Shares of a subsidiary issued to a minority shareholder	100	—
Decrease in long-term notes receivable	—	213,227
Proceeds from issue of common shares	—	16,000
Total funds provided	1,331,406	3,002,984
Funds used (provided):		
Loss (income) from operations before extraordinary items	2,554,767	(575,161)
Items not (requiring) providing working capital during the year:		
Depreciation and amortization	(1,212,830)	(880,454)
Gain on sale of property and equipment	338,949	—
Deferred income taxes	140,000	(513,740)
Minority interest	392,925	(23,265)
Share of loss in corporate joint ventures	(39,787)	(31,843)
Working capital used in (provided by) operations exclusive of extraordinary items	2,174,024	(2,024,463)
Additions to property and equipment	1,177,021	3,502,291
Reduction in long-term debt	898,882	348,962
Advances to corporate joint ventures	104,022	—
Preproduction costs at new plant	—	559,258
Acquisition of common shares by a foreign subsidiary	23,524	175,750
Additions to other assets	7,516	75,295
Acquisition of shares from minority shareholders	—	43,930
Additional assessment for prior years income taxes	—	67,760
Redemption of preferred shares	—	12,600
Total funds used	4,384,989	2,761,383
(Decrease) increase in working capital	(3,053,583)	241,601
Working capital at beginning of year	3,405,498	3,163,897
Working capital at end of year	$ 351,915	$ 3,405,498

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 1975

1. Summary of significant accounting policies:

(a) *Principles of consolidation:*

These consolidated financial statements include the accounts of the company and all of its domestic and foreign subsidiaries. All intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

(b) *Translation of foreign currency:*

Current assets and current liabilities of the company and its domestic and foreign subsidiaries in U.S. dollars have been translated to Canadian dollars at par of exchange. Non-current assets and liabilities of U.S. subsidiaries have been translated to Canadian dollars at par being the approximate rate of exchange of Canadian and U.S. dollars at the dates of acquisition. The company will continue to use this procedure until a material and lasting exchange fluctuation makes a change necessary.

(c) *Inventories:*

Inventories are valued at the lower of standard cost and estimated net realizable value, with such standard cost approximating current cost as determined by first-in, first-out method.

Major components of inventories are as follows:

	1975	1974
Finished goods	$2,850,446	$3,486,536
Work in process	2,698,637	3,638,171
Raw materials	2,294,121	2,200,305
	$7,843,204	$9,325,012

(d) *Property and equipment:*

These assets are depreciated using primarily the straight-line method at rates based upon their estimated useful lives. A summary of these assets is as follows:

		1975			1974
	Estimated Useful Life	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	—	$ 274,556	$ —	$ 274,556	$ 278,356
Buildings	5-40 yrs	2,964,652	740,492	2,224,160	2,266,081
Machinery and equipment	3-15 yrs	9,339,511	4,720,180	4,619,331	4,738,044
Leasehold improvements	Term of lease	628,662	189,392	439,270	436,453
		$13,207,381	$5,650,064	$7,557,317	$7,718,934

(e) *Amortization of other assets:*

Patents and franchise rights are amortized on the straight-line method over their estimated useful lives, which are generally seventeen years.

Unallocated cost of business over net book value of assets acquired is being amortized over a five-year period commencing July 1, 1973.

Preproduction costs at new plant:

In June, 1973 the company commenced construction of a new manufacturing facility in North Carolina. In May, 1974 the company commenced moving inventories and equipment from its other plants to North Carolina. The company commenced production in this new facility in July, 1974.

Costs other than those included in costs of the building, and incurred prior to June 30, 1974 were deferred. These preproduction costs are being amortized on the straight-line basis over a five-year period beginning July 1, 1974. All costs and expenses incurred by the company since July 1, 1974 which relate to attaining efficiency in the new facility have been charged to costs of operations. Costs and expenses associated with training of production personnel and excess manufacturing overhead included in costs of operations during fiscal 1975 are estimated to amount to $400,000.

(f) *Product development expenses:*

All research and product development costs are charged to operations as incurred.

2. Summary of events of financial significance during and subsequent to the current year:

(a) *Labour strike at three plants located in Massachusetts:*

The company's labour union contract with approximately 600 employees in these three plants expired on July 1, 1974. In September 1974, contract negotiations were broken off and these employees went on a prolonged strike until January 1975. Prior to this strike the majority of consumer goods production in Massachusetts had been permanently transferred to the company's new facility in North Carolina. After the strike ended certain operations were resumed at the Massachusetts plants. However, such operations only required the services of approximately 200 employees resulting in a significant amount of idle capacity and unabsorbed fixed costs for the year ended June 30, 1975. Although a combination of business and economic factors contributed to the loss of $1,900,000 incurred by the Massachusetts operations, it is felt that a substantial portion of this loss can be directly or indirectly attributed to the strike.

(b) *Consolidation of Massachusetts operations and sales of assets:*

Subsequent to the year end, the company consolidated all Massachusetts operations into one plant and further reduced the number of employees to 150. Idle property and equipment have subsequently been sold or have been contracted to be sold for approximately $487,000 (net book value approximates $158,000) and the remaining vacant plant with a net book value of approximately $80,000 is available for sale. Terms of sale in most cases call for payments to be made over the next five years. The expected profit on these transactions is not reflected in these consolidated financial statements.

(c) *Settlement of litigation:*

In July 1973, the company was named as one of three defendants in a suit initiated by a former officer of a subsidiary company alleging breach of contract. The plaintiff sought ordinary damages of approximately $243,000 and punitive damages of $500,000. In September 1975, the action was settled under an agreement which called for $25,000 in cash payments to the plaintiff and delivery of securities valued at $11,250. The full amount of the settlement has been charged to earnings in the accompanying financial statements.

(d) *Environmental action:*

In 1973 a subsidiary was served with a writ for a suit begun by the Director of the Division of Water Pollution Control of the Commonwealth of Massachusetts. The writ sought installation of anti-pollution devices to prevent unlawful pollution of the Nashua River. As the subsidiary has ceased operations in the plant which was the subject of the writ, no further costs are anticipated with respect to this action.

(e) *Sale and lease back of equipment:*

During the year equipment with a net book value of approximately $93,000 was sold by a subsidiary to a leasing company for $250,000 which subsequently leased this equipment to another subsidiary company. The excess of proceeds over net book value has been recorded as a gain on sale of property and equipment.

(f) *Issuance of Mortgage Bonds subsequent to June 30, 1975:*

By virtue of a trust deed dated July 2, 1975 a subsidiary has issued First Mortgage Bonds, Series "B", in the amount of $500,000. The proceeds of $480,000 which is net of issuance expenses were received on August 25, 1975 and used to reduce current bank indebtedness. These financial statements give effect to this transaction.

3. Bank indebtedness:

Trade accounts receivable and inventories are pledged as collateral for bank indebtedness. A subsidiary with bank indebtedness of $1,994,500 has pledged, as additional security, all of its real and tangible properties with a carrying value of $1,178,944. subject only to a prior mortgage of $216,532.

4. Long-term debt:

Payable in Canadian funds:	
11¾ % First mortgage bonds, Series "A" payable in monthly installments, maturing June 1981	$ 899,500
13% First mortgage bonds, Series "B" payable in monthly installments maturing December 1980	500,000
Debentures held by a government development agency, payable in monthly installments:	
9½ %, maturing February 1982	145,487
8¼ %, maturing September 1979	146,844
Various conditional sales contracts	287,940
	1,979,771
Payable in United States funds:	
First mortgage payable in monthly instalments, interest at prime rate plus 3% (minimum rate 9½ %) maturing 1980	216,532
5% unsecured loan, payable in monthly instalments, maturing 1980	422,000
9¼ % mortgage payable in monthly instalments, maturing 1999	1,584,298
Bank loans:	
8% payable in monthly instalments maturing 1978	221,064
9¾ % payable in quarterly instalments maturing 1978	276,000
Various conditional sales contracts	122,419
	2,842,313
Total long-term debt	4,822,084
Less current instalments	546,373
Long-term debt excluding current instalments	$4,275,711

The aggregate payments estimated to be required in each of the next five years to meet principal retirement provisions of long-term debt agreements presently in effect are as follows:

1976	$546,373
1977	603,000
1978	769,000
1979	578,000
1980	440,000

The long-term debt is secured by a charged against property and equipment and a floating charge on all other assets of certain subsidiaries. Under the provisions of the trust deeds securing the Series "A" and "B" First Mortgage Bonds the company is obliged to maintain its working capital at a level in excess of the amount shown in these consolidated financial statements. The lender has waived this requirement for the period ended June 30, 1975.

5. Commitments under long-term leases:

(a) The company rents a building from shareholders under a long-term lease which expires on October 31, 1983. Annual rentals are payable in advance, with the next payment amounting to $52,000 due on October 31, 1975. Annual rentals reduce by $2,000 per year until October 31, 1981 and a final payment of $15,000 is due on October 31, 1982 in respect of the ensuing year.

Under a separate agreement, the company has an option to purchase the property at any time during the term of the lease for the original purchase price of the shareholders of $425,000 plus imputed interest from December 1969 at the rate of 3% compounded annually.

(b) Rental commitments under significant non-cancellable leases are estimated for each of the next five years as follows:

1976	$350,000
1977	350,000
1978	320,000
1979	280,000
1980	160,000

6. Litigation:

During 1970 and 1971 Ilco Corporation, a subsidiary, was named in a number of class actions against manufacturers of lock hardware alleging violations of antitrust laws. These actions were brought in various jurisdictions and have been consolidated for pretrial proceedings in the United States District Court for the District of Connecticut. During fiscal 1975 this subsidiary was named a defendant in a number of cases brought by union employees through the American Arbitration Association. The total amount claimed approximates $207,000. In addition the National Labour Relations Board has issued a consolidated complaint involving a number of alleged unfair labour practices; no dollar amount has been claimed. Legal counsel is unable to assess whether any of these actions have merit and the company and counsel are unable to determine what damages, if any, may result from these actions.

7. Income taxes:

As at June 30, 1975 certain of the company's subsidiaries have losses for tax purposes sustained in current and prior years which may be used to reduce their taxable incomes in future years as follows:

Deduction available until	Amount
1976	$ 308,000
1977	4,000
1978	4,000
1979	1,164,000
1980	887,000
	$2,367,000

Certain of the company's United States subsidiaries have additional benefits available which may be used to reduce income taxes payable in future years. These benefits aggregate approximately $270,000 and expire at various dates through 1981.

8. (Loss) income per share:

	1975	1974
On net (loss) income before extraordinary items	$ (1.48)	$ 0.32
On extraordinary items	—	0.12
On net (loss) income for the year	$ (1.48)	$ 0.44

9. Remuneration of officers and directors:

	1975	1974
Number of directors	8	7
Aggregate remuneration of directors as directors	$ 5,100	$ 6,000
Number of officers (including 1 past officer in current year)	5	5
Aggregate remuneration of officers as officers	$194,600	$164,500
Number of officers who are also directors	3	3

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Unican Security Systems Ltd. and its subsidiary companies as at June 30, 1975 and the consolidated statements of income, deficit, contributed surplus and changes in financial position for the year then ended. For Unican Security Systems Ltd. and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, subject to the final outcome of the litigation referred to in note 6, these consolidated financial statements present fairly the financial position of the companies at June 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell + Co.

Chartered Accountants

Montreal, Quebec
November 17, 1975

General Information

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Montreal & Toronto Stock Exchanges,
Symbol UCS

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Royal Trust Company,
Montreal, Toronto

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Montreal, Que. H2X 2V3

The First National Bank of Boston,
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Boston, Mass. 02110

Worcester County National Bank,
P.O. Box 529,
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Directors & Officers

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J. L. Switzer
Executive Vice-President and Director

S. I. Belzberg
Vice-President Manufacturing and Director

A. G. Lester
Director

Mrs. A. M. Fish
Director

Ira Milton Jones
Director

David Stendel
Director

G. D. Sutton
Director

K. D. Shulman
Treasurer and Controller

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